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General Assembly

FORTY-SIXTH SESSION

Official Records

SECOND COMMITTEE
23rd meeting
held on
Tuesday, 29 October 1991
at 3 p.m.
New York

SUMMARY RECORD OF THE 23rd MEETING

Chairman: Mr. BURKE (Ireland)

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AGENDA ITEM 81: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued)

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12 November 1991
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The meeting was called to order at 3.15 p.m.

AGENDA ITEM 81: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/46/264, A/46/317-S/22823, A/46/323-S/22836, A/46/336, A/46/415, A/46/520; A/C.2/46/L.6)

1. Mr. GUERRERO (Philippines) said that his country's external debt, which exceeded $US 29 billion, was equivalent to 70 per cent of its gross domestic product (GDP). Each year, the Philippines allocated 40 per cent of its annual budget, or one third of its export revenues, to service that debt. If the Philippines were not burdened with such a huge debt, it could use more funds to bolster its social and economic services, which currently received only 22 per cent of the national budget. In addition, the purchase of more equipment and the import of new technologies would enhance the country's economic growth and development.

2. The Philippines was unable to pursue its development and structural adjustment programmes to the extent it wished because it must continue to pay its debts, even though in some cases it had already fully repaid their net value, and even though they had been inherited from an authoritarian Government which had contracted them for spurious purposes. The Philippines would never neglect its obligations, despite the typhoons, floods and volcanic eruptions that plagued its territory.

3. Many creditor countries were fully aware of the gravity of his country's situation, which was comparable to that of other low-income and heavily indebted developing countries. Those creditor countries which had forgiven the official debt of one or two countries in particularly difficult circumstances had not done the same for all countries, and limited themselves to rescheduling or discounting debt, or to granting new loans for the payment of old debts, thereby helping to perpetuate and increase the debtor's burden. However, the Philippines and many other countries had not declared a unilateral moratorium, put a cap on debt payments, selectively repudiated some debts or declared their complete inability to make further payments. On the contrary, they accepted the necessary sacrifices and continued to service their debts.

4. In any case, a refusal to fulfil debt obligations at the current moment in history would have disastrous consequences, since it could prompt the interruption of the flow of resources necessary for the growth and development of debtor countries, which needed direct foreign investments and access to external markets.

5. Although the General Assembly, in resolution 45/214, had welcomed the willingness of several creditor countries to reduce and/or write off the stock and debt servicing of many developing countries, its concerns clearly had not been limited to low-income and least-developed debtor countries, since it had also stressed the urgent need for the broadest and most expeditious implementation of the recent initiatives and for building upon them. Those

(Mr. Guerrero, Philippines)

words, which echoed the relevant provisions of the International Development Strategy for the Fourth United Nations Development Decade, meant that realistic solutions could no longer be postponed, at the risk of causing the developing countries to collapse politically and economically beneath the weight of an insupportable burden.

6. Ms. HARPER (Canada) said that many developing countries which had implemented strong economic adjustment programmes had benefited from debt relief measures, including debt reduction. Despite such progress, however, the debt crisis was serious and particularly affected the poorest and most heavily indebted countries. That was why the leaders of the seven major industrialized countries, at the London Summit in July, had not only reaffirmed the need for additional debt reduction beyond that granted under the Toronto terms, but had also called upon the Paris Club to implement the new measures promptly and to continue to examine the situation of lower-middle-income countries on a case-by-case basis.

7. Debt reduction could successfully promote sustainable growth and reduce poverty only in the context of effective economic adjustment by the recipient country. In the short term, developing countries should pursue macroeconomic measures to stabilize the domestic economy, without sparing efforts to improve social conditions and governance. In that regard, the best results were achieved when inefficient State sectors were dismantled in the context of a market economy which offered opportunities and incentives to local entrepreneurs and cooperatives, and which integrated all citizens, including women, in the country's economic life.

8. Economic reform was not an end in itself, but rather a means to improve efficiency and thereby contribute to the reduction of poverty. It was therefore necessary to protect the most vulnerable sectors of society and to increase their productivity so as to bring them into the economic mainstream. Priority attention must also be given to the rural economy, to human resource development in general, to primary health care and to education.

9. Clearly, domestic reforms would achieve maximum results only in a favourable international economic climate. Countries which sought to increase their exports must ensure that their products were competitive and must find accessible markets for them which operated under clear and transparent rules guaranteeing fair competition. That was why Canada was working strenuously for the successful completion of the Uruguay Round of trade negotiations.

10. It was also important that developing countries should receive adequate economic assistance. Canada was especially careful to maintain its level of official development assistance (ODA) in areas such as sub-Saharan Africa; it had forgiven over $Can 1.1 billion in development assistance loans and had been one of the first countries to switch from that type of assistance to grants, so as not to increase the stock of debt.

(Ms. Harper, Canada)

11. In sum, debt problems required solutions in which developed and developing countries worked in partnership. Canada remained committed to the urgent task of helping to find such solutions.

12. Mr. AMAZIANE (Morocco) said that in 1990, the external debt of the developing countries had increased by 6 per cent over the 1989 level, for an increase of $80 billion in a single year. Consequently, the debt represented half the total gross national product (GNP) of the developing countries and approximately twice the total amount of their annual export income. The composition of those countries' debt had changed drastically during the 1980s: the portion represented by public debt had tripled since 1980 and constituted 42 per cent of the total, while debts owed to multilateral creditors had increased to 19 per cent of the total debt, compared to 15 per cent in 1985. At the end of 1989, arrears had amounted to $79 billion.

13. In 1990, the net transfer of resources from developing countries had been $24 billion and, in view of very high interest rates and the profits from foreign investments projected for 1995, the developing countries would continue to export to the developed countries more goods and services than they received.

14. ODA to the developing countries had fallen, and the danger that part of it might be allocated to the countries of Eastern Europe and the Soviet Union, as had occurred with food aid, could not be ruled out. The growth rate in developing countries' exports had been 8 per cent, resulting in a 2 per cent reduction in the debt to export ratio. According to the World Bank, that modest improvement was a result of the Brady Plan, the decisions adopted by the Paris Club to soften the terms of debt restructuring, the continuation of other debt relief programmes and the increase in exports from some developing countries. In fact, the improvement had been due mainly to the increase in earnings from oil exports and had therefore been of no benefit whatsoever to the energy-importing developing countries.

15. Despite the debt-reduction initiatives so far taken, everyone agreed that the debt crisis had not been resolved. His country reiterated the position long held by the developing countries that the debt crisis was a political rather than a technical problem and that political will was required in order to resolve it. To confirm that view, one need only look at the reasons why the solutions adopted by the international community since 1982 had not been wholly successful. The international strategy for debt management continued to focus on resolving problems on a case-by-case basis whereas what was needed was a global approach.

16. The Brady Plan launched in 1989 made provision for a 20 per cent reduction in the commercial debt of the 17 developing countries included in the category of heavily-indebted middle-income countries, which were applying structural adjustment programmes approved by IMF and the World Bank. The debt relief afforded by the Brady Plan had not lived up to the expectations of the

(Mr. Amaziane, Morocco)

countries concerned and had not enabled them to regain solvency and access to external capital markets.

17. The main problem encountered by the Brady Plan had been lack of financial resources, since only $6.4 billion of the $20 billion earmarked for funding the plan had been spent. In the face of the disappointing results of the Brady Plan and the accumulation of arrears, a number of developing countries had been obliged to resort to other debt-reduction programmes with commercial banks. Debt-equity swaps had made it possible to reduce the developing countries' debt by $34 billion between 1985 and 1989. However, debt for environment, debt for health and debt for education schemes had done little to alleviate debt, since the amounts involved had been minimal. Conversion programmes had been suspended in 1989 because of their inflationary effects and from 1990 onwards had been tied to privatization programmes. In any case, it should be remembered that debt-conversion schemes offered only limited respite to debtor countries, since they could generate balance-of-payments pressures once the profits, dividends and capital produced by such operations had been repatriated.

18. Various measures had been taken to resolve the debt problems faced by the heavily-indebted low-income countries, including the writing-off of $8 billion of debt under official development assistance, the rescheduling of $5 billion within the framework of the Toronto terms, and the resources provided on favourable terms under the structural adjustment programme, the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility. Total debt cancellation for those countries had increased considerably since October 1990 and was now in excess of $11 billion. Nevertheless, further measures were needed to support adjustment and help those countries regain external solvency.

19. With that in view, fresh initiatives had been proposed or adopted, such as the United Kingdom's September 1990 proposal to reduce the volume of debt of the poor countries by two thirds under the Trinidad terms, the Netherlands' proposal to write-off the bilateral public debt of poor indebted countries which agreed to follow "rational" economic policies, and the recognition by the London summit that new measures were needed to alleviate debt in those countries. However, it was to be regretted that the London summit had failed to put forward recommendations concerning the size of such additional relief, particularly as it had been acknowledged that the countries concerned merited special treatment. It was also regrettable that the treatment accorded to some middle-income countries such as Poland had been designated "exceptional" and could therefore not be extended to other countries.

20. Public debt relief for the middle-income countries had aroused hopes which unfortunately had not been fulfilled. At the annual joint meeting of IMF and World Bank, the Managing Director of IMF had stressed the need to take new decisions to ease the debt burden of the poorest countries and the middle-income countries and had expressed the hope that official creditors

(Mr. Amaziane, Morocco)

would find solutions to the debt problem of those middle-income countries heavily indebted to public creditors, as they had already done in a number of cases, including that of Poland.

21. In 1990 the multilateral debt of the developing countries had reached $235 billion, in other words more than 19 per cent of the total debt owed by those countries, as compared to 18 per cent in 1989. Despite the readiness of the debtor countries to meet their obligations to multilateral institutions and thereby avoid financial isolation, at the end of the 1991 financial year there were 17 countries in arrears with their payments to the World Bank and the IMF. There were those who felt that the statutes of the multilateral institutions should be amended to allow rescheduling, and even reduction, of the debt of countries in arrears.

22. Despite the positive achievements of the international debt-reduction strategy, the Secretary-General pointed out in his report (A/46/415) that it would be premature to claim that the crisis was almost over. The debt-reduction strategy had undeniably saved the international financial system from disaster, but it had not enabled the debtor countries to resume their economic growth and regain their solvency. The debt relief given to the indebted countries had been extremely modest, while the markets of the North continued to be dominated by a protectionist approach which exerted a further adverse influence on the finances of the developing countries, given that freer access to those markets would enable them to increase their export earnings by a proportion equivalent to the ODA they received. Hence the vital importance of the multilateral negotiations for the Uruguay Round. In additional real interest rates on the international financial markets continued to be very high, thereby increasing the developing countries' debt artificially. Every percentage point increase in those interest rates meant an additional debt burden of $4 billion, completely cancelling out the modest reductions allowed to the indebted countries.

23. The industrialized countries should therefore apply to themselves the same adjustment measures they advocated for the developing countries, so that in the long term real interest rates would be at a level compatible with world-wide economic recovery. The conference on development financing proposed by the Secretary-General would be an ideal opportunity to secure a global consensus on a strategy aimed at reactivating economic growth in the developing countries, ensuring the success of the process of transition in Eastern Europe and the Soviet Union, and remodelling the international financial and monetary system to make it responsive to the development needs of the world as a whole on the eve of the third millenium.

24. His delegation called on the international community to give serious consideration to the report (A/45/380) submitted to the General Assembly at its forty-fifth session by the Personal Representative of the Secretary-General on Debt, Mr. Craxi, whose proposals reflected the concerns of the

(Mr. Amaziane, Morocco)

indebted countries. It would like to see those proposals translated into action. Finally, his country wished to reiterate its support for the proposal contained in Mr. Craxi's report that a Mediterranean African Development Bank should be set up.

The meeting rose at 4 p.m.

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UNITED NATIONS

General Assembly

FORTY-SIXTH SESSION

Official Records

SECOND COMMITTEE
24th meeting
held on
Wednesday, 30 October 1991
at 10 a.m.
New York

SUMMARY RECORD OF THE 24th MEETING

Chairman: Mr. BURKE (Ireland)

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AGENDA ITEM 81: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued)

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Distr. GENERAL
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6 November 1991

ORIGINAL: ENGLISH

The meeting was called to order at 10.05 a.m.

AGENDA ITEM 81: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/46/264, A/46/317-S/22823, A/46/323-S/22836, A/46/336, 344, 415, 520; A/C.2/46/L.6)

1. Mr. DEL ROSARIO C. (Dominican Republic) said that the plight of the poor in Latin America and the Caribbean had continued to worsen over the past year; unless the debt crisis was resolved as a matter of urgency, the international community's development aspirations for the 1990s would remain empty rhetoric. It was therefore to be hoped that the report on the external debt crisis and development which the Personal Representative of the Secretary-General on Debt, had presented at the forty-fifth session (A/45/380) would not be consigned to oblivion by the major economic Powers, but would swiftly be translated into action. In that connection, his delegation welcomed the announcement by the representative of the United States of America that the United States Government had recently forgiven a substantial amount of Latin American and Caribbean debt.

2. His Government was making strenuous efforts to stabilize the currency, and had adopted a stringent monetary policy to rationalize the country's financial system. It was adopting anti-inflationary measures with a view to making the economy more attractive to domestic and foreign investors. Some positive results had been registered; however, unless the country's debt problem was solved, all its efforts would be nullified by the burden of debt repayment and servicing.

3. His delegation supported the view expressed in the Declaration on International Economic Cooperation that each country was responsible for its own development policies, but also believed that the indebted countries were not solely to blame for their situation and accordingly needed the cooperation of creditor countries to resolve the problem. Given the urgency of the situation, his delegation was ready to cooperate fully in the search for a consensus among debtor countries and understanding on the part of creditor countries.

4. Mr. SYAHPERI (Indonesia) said that the external debt crisis, together with an unfavourable external economic environment, had forced a number of developing countries into economic stagnation and, in some cases, decline. If not reversed, the situation might create unbearable conditions that could lead to political instability and social upheaval. It was thus encouraging that the international community had recognized that the crisis was a complex and ongoing phenomenon requiring long-term and sustained relief measures to address its underlying causes.

5. Although some existing schemes for resolving debt problems had been helpful, the measures applied under the Brady Plan and the Toronto initiative had been too limited. The Brady Plan in particular had failed to break the vicious circle of indebtedness, domestic financial disorder and low growth experienced by most indebted developing countries, while the Toronto

(Mr. Syahperi, Indonesia)

initiative needed to be expanded to embrace all categories of debt. A comprehensive solution to the debt problem should include an international debt facility outside the existing framework for debt relief.

6. Creditor countries and multilateral financial institutions should also come forward with solutions for the debt problems of those severely indebted countries that had consistently honoured their payment obligations instead of restructuring their debt. Countries in that category, which included Indonesia, had only been able to fulfil their obligations through painful adjustment policies entailing heavy sacrifice. Such self-discipline should be recognized as the indebted countries' half of the bargain. In exchange for their efforts, they should be assured of continued access to external financial resources, given the declining levels of official and private capital. The implementation of official debt-relief programmes should proceed in an orderly and equitable manner, taking due account of those countries' adjustment performance and needs, and not merely their strategic and political importance.

7. Increased trade was one of the most desirable means of increasing resources for the developing countries. The international community, and the industrialized countries in particular, should give greater support to efforts to create an economic climate more favourable to the development needs of the developing countries. Such an environment must be ensured through an appropriate mix of fiscal, monetary and trade policies which reflected individual countries' capacities and impact on the world economy. Given the urgent need to expand and liberalize world trade, his delegation hoped that all parties, and the major trading nations in particular, would renew their political commitment to bring the Uruguay Round to a successful conclusion. His delegation was pleased to note that the Trade and Development Board, at its thirty-eighth session, had called for discussions at the eighth session of the United Nations Conference on Trade and Development (UNCTAD) aimed at resolving the international debt problem.

8. Yet debt reduction policies and a favourable external environment could not in themselves resolve the debt crisis; the efforts of debtor countries were also of critical importance. Structural adjustment must be adequately supported by non-inflationary growth and adequately funded if it was to have a positive and sustainable impact, particularly for the poor.

9. Mr. LWIN (Myanmar) said that, although net lending to developing countries had shown only a marginal increase in 1990, the ratio of external debt to GNP of those countries had increased significantly, reversing the positive trend of the two previous years and demonstrating that the current debt strategy was not equal to the task at hand.

10. That did not mean that there had been no progress. In recent years the Toronto initiative, the Brady Plan and the "Houston terms" had brought some measure of relief to a number of developing debtor countries. Had they been

(Mr. Lwin, Myanmar)

implemented, the proposed Trinidad terms would have been another welcome initiative, although it was clear from the Secretary-General's report (A/46/415) that even the full application of those terms would not reduce eligible countries' debt burden sufficiently.

11. What was needed was a comprehensive and durable solution based on innovative approaches and creative ideas that would significantly reduce the stock and service of all types of debt for all types of debtor countries. With the requisite political will, that goal was not unattainable, as was illustrated by the unprecedented levels of debt relief accorded to Egypt and Poland.

12. The developed countries must adopt suitable macroeconomic policies and exercise greater fiscal restraint in order to reduce interest rates to levels conducive to long-term growth and financial stability. Another important component of the solution to the debt crisis was a free, open and non-discriminatory international trading system. Only through freer market access could the developing countries hope to increase their income from export earnings. Fair and remunerative prices for developing country exports constituted a further crucial component.

13. The International Development Strategy for the Fourth United Nations Development Decade had rightly stressed that an early and durable solution to the debt problem was the joint responsibility of all parties concerned. Those parties must thus avail themselves of the opportunity afforded by the end of the cold war era to work together to find such a solution, thereby ensuring the success of the developing countries' development endeavours while fostering international growth and development.

14. Mr. AVANESOV (Union of Soviet Socialist Republics) said that, despite significant political progress and major efforts to improve relations between debtors and creditors, the external debt problem, had entered its second decade, acquiring new, truly global dimensions. Some progress had been made in developing practical systems to regulate government and commercial debt. Creditor Governments and debtor countries were reviewing debt repayment conditions and agreeing on partial write-offs linked to the introduction of structural adjustment measures. Recent measures had also been adopted to cancel the debt and relieve the debt-servicing burden of middle-income countries. The Trinidad terms had been a valuable initiative put forward by the United Kingdom, and a consensus was emerging on the need for a globally coordinated debt strategy, with the participation of international organizations and financial institutions, Governments, research centres, commercial banks, politicians and financiers, as the only means of reaching a durable solution to the problem.

15. The opening up of the Soviet economy and its integration in the world economic system had rendered the problem of external debt particularly relevant to the USSR. His Government was exploring new methods of settling its external debt. Legislation had been enacted to guarantee fulfilment by

(Mr. Avanesov, USSR)

the new economic community of the foreign economic obligations it had inherited from the USSR. At a recent meeting between the heads of Government of the 12 independent Republics of the USSR and financial representatives of the leading industrialized countries, a memorandum had been signed on the Republic's shared responsibility for Soviet external debt and recognizing the State bank for foreign economic transactions, or its successor or duly appointed representative, as the only body competent to service that debt. The Republics also aimed to conclude an agreement with Latvia, Lithuania and Estonia on the participation of those countries in the repayment of the Soviet Union's foreign debt.

16. The USSR was also a major creditor and, in view of its own serious economic problems, was endeavouring to reach a prompt settlement of debts owed it by other States. Careful consideration was being given to non-traditional methods of debt repayment, such as debt swaps or partial payment in traditional exports or local currency, which would subsequently be reinvested in the debtors' economies. The sovereign Republics, industrial associations and individual firms were also actively participating in that exercise.

17. In conclusion, the Soviet Union fully supported the call for constructive cooperation between debtors, creditor Governments, commercial banks and international financial institutions in seeking a solution to an acute problem which jeopardized the democratic processes currently under way in the modern world.

18. Mrs. AMERASEKARE (Sri Lanka) said that the world had entered a transitional period in which conventional economics no longer applied. There must be a direct and immediate transfer of resources to the Eastern European and heavily indebted countries, to set them back on the path to sustainable growth. A precedent existed for such an approach: had the United States not written off Germany's post-war debt, history might have taken a very different course. It was important to avoid short-sighted decisions that might lead the world into another cold war, one between the "haves" and the "have-nots".

19. In order to usher in a new global order and tap the world's potential for growth, imbalances must be rectified in the world supply situation and distribution system. Currently, resources were needed by: countries facing the debt crisis; Eastern European countries, for development; developing countries, to alleviate poverty and offset the impact of the Gulf crisis; and developed countries, to sustain their development. The peace dividend was sufficient to meet the demand from those four sources, but the developed countries must also adopt appropriate and coordinated fiscal, monetary and trade policies that would lead to lower real interest rates. However, both developed and developing countries must adopt a new approach to the problem.

20. The international community must pay heed to four interdependent issues: the debt crisis, the international trading system, commodity prices and the environment. It was not sufficient to address one of those issues in

(Mrs. Amerasekare, Sri Lanka)

isolation. For instance, debt write-offs would not stimulate growth in the developing countries unless an equitable trading system was established that could generate the money those countries needed for development and to finance their imports. Without remunerative commodity prices, the problems of poverty and unemployment would continue to plague developing countries, driving the population to destroy the environment in the search to meet its basic economic needs.

21. Recent debt relief initiatives by the international community had been restricted to specific categories of debt and thus failed to meet the overall needs of developing countries such as Sri Lanka, which, lacking substantial natural resources, were unable to make use of debt-swap mechanisms. Consideration must also be given to other factors, such as human resources, poverty and unemployment, in evolving a debt relief strategy. That strategy must also aim to achieve not only sustainable growth, but growth at a higher level, in order to bring about a genuine improvement in the quality of life in the developing countries. Such growth would require more investment. The developing countries' investment needs could be met, at least in part, if the funds currently earmarked for debt-servicing were made available for investments which would also enable them to build the infrastructure needed to attract private capital flows.

22. Another important issue requiring attention was the future of countries that had followed or were following adjustment policies. Sri Lanka had adopted such adjustment measures and had experienced great hardship as a consequence. However, the external environment needed to back up those measures had been lacking. There were no markets for Sri Lanka's products, and the country lacked access to funds for investment. If external financial flows were not made available for investment, what was the purpose of spending money on adjustment programmes? Countries like Sri Lanka had depended on multilateral organizations for the bulk of their investment resources, and a major part of their debt was multilateral. A mechanism must therefore be established to provide relief in respect of multilateral debt.

23. Mr. ZHANG Yesui (China) said that measures to alleviate the debt burden of the developing countries under the international debt strategy had been limited in scope and discriminatory in nature, falling far short of a comprehensive and durable solution to the problem. His delegation believed that the problem could only be solved if the debt strategy took as its central aim the revitalization of economic growth and development of developing countries, enabling them to stabilize domestic prices, increase export revenues and keep a balanced international account. While developing debtor nations must continue to implement growth-oriented adjustment policies appropriate to their national conditions, developed creditor nations must adjust their macroeconomic policies to create a favourable economic environment for the developing countries, with increased market access, adequate financial resources, stable exchange rates, low interest rates and sound coordination of macroeconomic policies.

(Mr. Zhang Yesui, China)

24. The recent initiatives undertaken with regard to the debt of the poorest countries must be implemented and extended to other types of debtor countries. The Paris Club had an important role to play in that regard and the active participation of commercial banks must also be encouraged.

25. The recent profound changes in the international situation had placed excessive demands on global savings, and effective measures were needed to raise their aggregate level and ensure their equitable distribution. The developed creditor countries should allow the developing countries increased access to international financial markets, enabling them to acquire much needed financial resources. It was to be hoped that the United Nations system would play a greater role in the search for a comprehensive and durable solution to the debt problem; consequently, China supported the Secretary-General's proposal on the convening of an international conference on development financing.

26. Ms. STOKES (New Zealand) said that her country knew only too well what it was to be challenged by external and internal debt, and was keenly aware of the pain that economic restructuring brought in the short term. Its own experience of economic liberalization had made it particularly sympathetic to the efforts of developing countries in that regard, while the external debt statistics were indeed alarming, some progress had been made through the strengthened debt strategy. The prospect of substantial savings resulting from disarmament was encouraging, and there was a growing conviction among developing countries that domestic economic reforms, more democratic structures and greater openness to the outside world could stimulate their development efforts.

27. New Zealand firmly believed that trade liberalization and a successful conclusion to the Uruguay Round of multilateral trade negotiations were crucial to an economically sustainable solution to developing country debt problems. A lowering of protective barriers would provide a much-needed boost to the economies of all developing countries through trade rather than aid, thus supporting ongoing efforts to alleviate the debt problem. Reducing the level of subsidies would encourage the flow of investment capital so badly needed in the developing countries, Central Europe and the USSR.

28. The Organisation for Economic Cooperation and Development (OECD) had estimated the cost of agricultural support in developed countries at $300 billion a year. The cost to developing countries of the industrial countries' protectionist measures greatly exceeded the value of development assistance. The gains derived from trade liberalization would help reduce the shortage in world savings significantly and could well have a larger and more immediate impact than the prospective peace dividend.

29. It was crucial that international efforts to address developing country debt issues should be continued. Her country was a net importer of capital, but all its official development assistance (ODA) was provided on grant

(Ms. Stokes, New Zealand)

terms. Along with other Commonwealth countries, it had pressed for acceptance of the Trinidad terms for severely indebted countries. New Zealand recognized that there were obligations incumbent on both creditor and debtor countries if a sustainable solution to the international debt crisis was to be found. However, an international consensus on debt would be attainable only when genuinely open and liberal international trading and financial systems existed.

30. Mr. PARIENTE C. (Panama) said that, like the other Latin American and Caribbean countries, Panama had decided as a matter of principle to honour its external and domestic debt obligations. It would do so in an effort to reverse the kind of international isolation that led to declines in foreign direct investment and caused creditors to impose stiffer lending terms. Accordingly, the Government of Panama had made serious efforts in 1990 to normalize its credit relations with the international financial institutions and was currently completing an economic restructuring and modernization programme had arranged with them.

31. The Panamanian Government was prepared to enter into rescheduling agreements which provided for a substantial reduction in its total stock of debt, using currently available mechanisms, a reduction in interest rates, and sufficiently lengthy repayment periods. The objective of the Panamanian strategy was to reduce the country's debt servicing burden in order to make it commensurate with the Government's capacity to pay. That capacity would determine in the light of the country's obligation to provide services to the Panamanian people, especially those in need, and to build an economic infrastructure which would support the development of private economic activity, the main source of employment, income and production. The Government would also manage financial assistance from international financial institutions to reduce the net transfer of resources abroad.

32. Panama's official debt in 1990 had been 5.1 billion balboas, including B 4 billion in external debt, one third of which was owed to international financial institutions. By the end of 1990, accumulated arrears had amounted to more than B 3 billion. Rescheduling of the portion of arrears owed to members of the Paris Club had been initiated in 1990, and rescheduling of the debt to private sources would begin as soon as Panama had normalized its credit relations with the international financial institutions. In fiscal 1991, Panama had planned to pay B 610 million to international financial institutions for 1989 arrears, and had received contributions and loans for that purpose from the United States of America, European countries, Japan and Taiwan. Payment of an estimated B 202 million in 1990 and 1991 arrears was also planned.

33. Panama's debt strategy was closely linked to the implementation of a programme which would bring about radical changes in economic structures, promote economic and social self-reliance, increase domestic savings, establish favourable conditions for foreign direct investment and create

(Mr. Pariente C., Panama)

jobs. The programme also sought to reduce the poverty affecting one half of the Panamanian population, modernize the economy as a whole, stimulate the growth of private enterprise and enhance the efficiency of State structures.

34. Mr. TURIANSKIY (Ukraine) said that the problem of external debt continued to be exacerbated by the slow implementation of national reconstruction programmes, by economic and social degradation and by political instability. The debt relief measures adopted on the recommendation of the major industrialized countries tended to be limited in nature, beneficial only in the short term and thus not conducive to a definitive solution of the global debt crisis.

35. Efforts to solve the problem of debt overhang should be guided by a better understanding of the origins of the crisis. In most cases, external loans had been used to cover deficits in State budgets and to finance grandiose development programmes and poorly conceived projects offering low financial and social returns. National decision-making had been left in the hands of an institutionalized bureaucracy, which preferred to finance State projects by increasing the national debt. Care should be taken, therefore, not to repeat the mistakes of the past by attempting to solve debt problems with further credits.

36. The issue was of particular concern to his delegation, since the newly independent State of Ukraine had inherited a serious external debt problem from the former Union of Soviet Socialist Republics, which, despite its immense size, population and wealth of natural resources, had found itself on the brink of bankruptcy at the end of 1990. The highly unprofitable foreign trade policy of the USSR, which had never sought advice from its constituent Republics, had led to a chronic shortage of freely convertible currency for the payment of imports and the servicing of its foreign debt. The problem had been worsened by the Soviet Union's catastrophic domestic economic policies, which had left the country with an immense debt burden. While Ukraine did not refuse to participate in the repayment of those debts, it insisted on knowing the exact source and designation of any credits received from the West.

37. His Government had recently adopted a declaration on the problem of external debt, which stated that the USSR was no longer empowered to represent Ukraine's interests with the international financial institutions and that Ukraine would accept no responsibility for any credits obtained by the USSR, unless by specific agreement. At the same time, Ukraine accepted its responsibility for that share of external debt which it had inherited from the USSR and would continue to service that debt on a properly prorated basis. Under the provisions of a recent memorandum signed by the 12 Republics, all debt-servicing operations would continue to be performed on their behalf by the State bank for foreign economic transactions of the USSR.

38. The problem of external debt could only be solved through an internationalized approach, with enhanced coordination between the United

(Mr. Turianskiy, Ukraine)

Nations, international financial institutions and State and private banks. Constructive and ideology-free dialogue was required on all aspects of the problem. Sound national policies, conducted in a favourable international economic environment, were essential to ensure the economic development of the entire international community, thereby easing the debt crisis.

39. Mr. AHMIA (Algeria) expressed support for the statement made on the item by the representative of Ghana on behalf of the Group of 77 and said that external debt, far from being the sum total of monetary and financial techniques, was essentially an international political issue. Proof of that lay in the flagrant failure of all the debt strategies attempted thus far, which had been narrowly conceived and far from disinterested. Creditors persisted in taking a selective case-by-case approach when what was actually needed was an international strategy embracing all aspects - political, economic, social and human - of the debt issue. His delegation welcomed the resolution by the Trade and Development Board at its thirty-eighth session on debt and development problems of developing countries and its recommendation that the eighth session of UNCTAD should review the progress of the international debt strategy.

40. In recent years, many African countries had undertaken sweeping economic reforms in an extremely unfavourable international economic environment which made their task much more difficult. His delegation remained convinced that, more than ever, it was necessary for the international community to find a global, lasting solution to the African debt problem - one which would take fully into account the proposals contained in the common African position on external debt, adopted by the African Heads of State at Addis Ababa in December 1987. In that connection, his delegation reaffirmed its full support for the proposal to convene an international conference on African debt. The South Commission report had also stressed the importance of multilateral action to reduce debt and debt-servicing, and of stanching negative flows of resources from the poor to the rich countries.

41. A truly innovative and global solution must include substantial reduction of the debt stock and debt-servicing for all developing countries, regardless of their classification. In that connection, the proposal by the Secretary-General to convene an international conference on development financing only strengthened his delegation's views on the matter. Such a conference would obviously serve the interests not only of the indebted countries but of all mankind.

42. Mr. AL-HUMAIDY (Qatar) said it was impossible to say that international relations were on a sound basis when developing countries were burdened by external debt and experiencing a fall in their export earnings and a diminution in the resources they could devote to economic and social development. In 1990, the indebtedness of those countries had passed the $1 trillion mark, and it constituted an insuperable obstacle to economic reform and structural adjustment programmes. As pointed out by the

(Mr. Al-Humaidy, Qatar)

Secretary-General in his report on the work of the Organization for 1991, the ranks of the poor and the displaced had increased alarmingly, and over 1 billion people currently lived in absolute poverty.

43. The problem of indebtedness persisted despite the efforts made in past years for a solution that would protect the interests of all parties and accommodate the economic concerns of the developing countries. The international community was moving in two opposite directions: the unprecedented and unanticipated relaxation of tensions between the nuclear Powers had led to increased assurance of peace and security, while the economic circumstances of a large number of third-world countries had deteriorated further, owing to the problem of indebtedness. The international community must find the same political will that had brought it security and stability and apply it to the economic and social problems of the third world so as to resolve them in the interests of the world as a whole. Those problems could not be isolated from the political arena, and might in fact vitiate recent political achievements.

44. The international community had no lack of mechanisms, ideas or proposals for a solution to the debt problem. His delegation supported the Secretary-General's proposal to convene an international conference on development financing. It called for the implementation of the Programme of Action for the Least Developed Countries for the 1990s adopted by the Second United Nations Conference on the Least Developed Countries and also hoped that the outcome of the Uruguay Round would reflect the interests of commodity-exporting and other developing countries.

45. In 1990, his country had embarked on its own initiative to alleviate the debt problem and had forgiven the debts of a number of Arab countries and other developing countries. It believed that such initiatives could contribute to the alleviation of external debt burdens and to finding an international solution to the problem. Those industrialized countries able to do so should emulate that initiative. Those who controlled the international economy must have the will to extricate the developing countries from the vicious circle of impoverishment and impotence which prevent them from improving their standards of living and providing a life of dignity for their peoples.

46. Mr. SZYMANSKI (Poland), referring to the Secretary-General's report (A/46/415), agreed that debtor countries should seek to stabilize their macroeconomy, reduce price distortions and apply structural adjustment policies, including export promotion, in order to qualify for new lending. Debt relief, however, was equally essential to obtaining new money, especially for middle-income debtor countries. Interest rates and interest rate trends were beyond the control of debtor countries but had a significant effect on their situation. His delegation therefore agreed with the conclusion contained in paragraph 53 of the report that interest rates in both developed and debtor countries should fall to levels more compatible with long-term

(Mr. Szymanski, Poland)

growth potential and financial stability. Clearly, interest rates depended on macroeconomic policy and the economic situation in the major industrialized countries - not on developing countries or those in transition.

47. Tackling the foreign debt problem continued to be a priority of Polish economic policy. Poland had successfully removed most barriers to international trade and was shifting to a market-oriented economy. During that transition, however, negative growth rates and growing unemployment reflected the short-term deflationary effects of adjustment policies. Domestic financial difficulties, coupled with high interest rates had also made recovery more difficult. Structural reforms introduced in Poland included the privatization of a number of large enterprises and some 25,000 shops and service outlets, but the process had been difficult. The results of the free parliamentary elections held on 27 October 1991 had shown that not all segments of society were willing to accept the additional social cost of economic "shock treatment".

48. The transition to a market economy was also being affected by a number of external shocks, including the breakdown of trade within the former Council for Mutual Economic Assistance, higher oil prices on world markets and the changes taking place in the eastern part of Germany. In addition, changes in the Soviet Union had led to the disruption of bilateral trade agreements, costing Poland export opportunities at a time when its competitive advantage was not sufficient to penetrate Western markets.

49. In introducing its wide-ranging reforms, Poland had benefited from standby and structural adjustment loans from the World Bank and the International Monetary Fund (IMF). It had also signed an agreement with the Paris Club, under which bilateral creditors had recognized the necessity of granting debt relief to countries in transition. However, the conclusion of that agreement did not automatically guarantee substantial debt write-offs in the immediate term. In fact, implementation of the first stage of rescheduling was contingent on Poland's agreement with IMF to restructure its economy and the conclusion of bilateral agreements with all creditor countries represented in the Paris Club.

50. Mr. MATRI (Pakistan), citing a study by the International Centre for Development in Paris, expressed astonishment that the debt problem had been viewed more as a consequence of underdevelopment than as a factor which perpetuated it. The pessimistic statistics contained in the Trade and Development Report, 1991 and the Secretary-General's report (A/46/415) only confirmed that the international community had made but slight progress in dealing with the debt crisis.

51. A recent article by professors at the University of Glasgow had stressed the doubly harmful effect of the debt crisis: while it compromised the development of third-world countries, it also caused loan defaults which endangered the stability of world financial markets. There was a growing

(Mr. Matri, Pakistan)

recognition that the macroeconomic linkages between the South and the industrialized countries had been a major cause of the debt crisis and must be an important element in its cure. Constructive North-South dialogue on the debt question was therefore essential. At its recent meeting at Bangkok, the IMF Interim Committee had also stressed that linkage called for sound monetary and fiscal policies and an open trading system in the North as a means of alleviating the debt burden.

52. The Latin American situation was an illustration of the staggering proportions of the debt crisis. The amount of resources that had entered Latin America between 1976 and 1971 represented about one eighth of the amount transferred out between 1981 and 1987. Such enormous resource transfers from developing countries had affected living standards and led to a situation of what had been called "de-development".

53. The recent 50 per cent reduction in the debt of Poland and Egypt represented a major stride in that it introduced the concept of debt reduction for middle-income countries and applied the reduction to the entire stock of debt. However, the increasing difficulties of the low-income countries, whose debt was largely official in nature, must not be overlooked. Many of those countries, including Pakistan, had met their obligations in full at the cost of human and social development, and their debt problems should now be addressed in the light of their respectable credit record. The worsening international economic situation had made it difficult for them to pursue their economic management policies, and that situation carried the certain risk of loan defaults. The problems of those countries had been further aggravated by the Gulf crisis.

54. In conclusion, his delegation agreed with the Secretary-General's assessment that one reason that the debt burden had not been significantly reduced had been a compartmentalized approach to the problem. The effectiveness of the debt strategy should therefore be enhanced not only by enlarging the scope of debt eligible for rescheduling but also by taking a more realistic, long-term view of the problem.

55. Mr. MARKS (United States of America) said that internal efforts to manage external debt in some debtor countries had temporarily threatened economic and social development. However, both creditor and debtor countries were increasingly realizing that the primary responsibility for debt management and an end to the crisis rested with the debtors. Resolution of the debt problem depended largely upon the willingness of the debtor nations to carry out deep-rooted structural reforms.

56. Successful economic reform required the consistent and comprehensive implementation of a number of policy principles. Establishing or reinforcing sound monetary and fiscal policies, reducing inappropriate subsidies while allowing domestic prices to find their own levels and opening the economy to domestic private-sector and international market forces laid the foundation

(Mr. Marks, United States)

for economic stability. To speed that process, policies should be accompanied by efforts to promote efficiency and provide incentives for production by establishing private property rights and privatizing public enterprises, promoting domestic competition and reducing or reforming the role of Governments. The success of such reforms would depend on attention being paid to the most economically vulnerable groups in the countries undertaking them.

57. The industrialized countries must make a serious contribution to reducing the external debt crisis by providing debtor nations with greater trade opportunities, investing in productive projects that generated employment and the transfer of technology, and by providing, in cooperation with the international financial institutions, technical assistance in implementing sustainable economic and financial policies. Those institutions had proved effective in helping the developing countries to integrate or reintegrate themselves into the international trading and financial system by helping them to alleviate poverty, institute sound environmental policies, expand export markets and finance the purchase of imports.

58. Foreign direct investment, as an alternative to debt, played a beneficial role. It was currently expanding more than three times faster than the growth of world exports or world gross domestic product. The success of the United States economy and those of many other developed and developing countries showed that foreign investment and private enterprise helped all countries to develop.

59. Through the strengthened international debt strategy, eight countries had concluded debt-reduction agreements with commercial banks, and another 12 middle- and lower-income countries were negotiating similar agreements. The Paris Club continued to provide appropriate official debt relief in support of strong economic reform programmes, and the United States and other Governments were following up the declaration of the London Economic Summit on the need for additional debt relief for the poorest of the indebted countries.

60. Nevertheless, much remained to be done. The debt problem was most serious in Latin America and Africa, where it was perceived as directly related to prospects for the continued growth of democracy. Recent cooperation between the major debtor countries, international financial institutions and commercial banks had brought some alleviation. The Brady Plan was helping to advance debt reduction by offering a combination of reduced interest payments and new loans to countries pursuing appropriate economic reform.

61. The United States had played a leading role in IMF and the World Bank in strengthening the international debt strategy. Its approach was based on the need to encourage policy reform and mobilize financial support for severely indebted countries undergoing the very difficult transition to greater dependence on market forces. In keeping with that approach, his delegation had joined in the consensus on General Assembly resolution 45/214, aimed at

(Mr. Marks, United States)

encouraging the flow of foreign direct investment and other non-debt-creating flows. The resolution also emphasized the importance of growth-oriented adjustment policies and sound macroeconomic management. The General Assembly's recognition of the importance of those points was encouraging, and his delegation looked forward to further consultations of the kind engaged in at the previous session to broaden understanding and find consensus. It endorsed the suggestion of the Nordic countries that the Committee should avoid a general resolution and call instead for a Chairman's summary reflecting the different views and issues involved.

62. As part of its commitment to the international debt strategy, the United States had written off billions of dollars in bilateral debt. In Africa, it had forgiven nearly $1 billion in principal and interest owed by 16 countries which had engaged in economic reforms; another 17 countries had had the "Toronto terms" applied to nearly $6 billion of debt servicing. Relatively little of Africa's debt was owed to the United States Government; however, $1.2 billion in concessional debt had already been forgiven and $416 million in loans associated with agricultural aid had been cancelled. All current development assistance to Africa was in the form of grants. In Latin America, the United States had facilitated eight agreements between Governments and their commercial lenders. The agreement with Mexico, for example, had reduced annual interest payments by 33 per cent, commercial bank debt by 32 per cent and principal repayments by $42 million.

63. Debt relief, however, was only one form of assistance. There were no panaceas that worked at all times for all countries. Moreover, external indebtedness was only one aspect of the economic and financial problems currently faced by many developing countries, those difficulties could not be overcome solely by reducing debt. It was generally agreed that competitive market, accountable Governments and broad participation in national economic and political life were essential to development. Recently, the finance ministers of 24 developing countries members of IMF had issued a communiqué in which they recognized that "good governance" played a real role in development. All countries must work together to put that important knowledge into effect. In that endeavour, the industrialized and the developing countries were partners with mutually reinforcing interests.

64. Mr. ROBLES (Mexico) said that the Secretary-General's report (A/46/415) showed that the external debt of capital-importing developing countries had reached a new peak, although there had been little expansion in the flow of lending. Almost 10 years since the start of the debt crisis, and despite the advances made in dealing with it, external indebtedness continued to threaten the growth prospects of much of the world's population and even the political stability of the debtor countries.

65. Much could be learned from the difficult steps taken in recent years by a number of debtor countries, some of which, including Mexico, had explored new ways of dealing with the problem. Mexico's efforts to modernize its economy

(Mr. Robles, Mexico)

had encouraged an increase in productive investment that had resulted, for the third consecutive year, in an increase in GDP considerably in excess of population growth. Access to world capital markets had encouraged the effort to attract external savings, and Mexico was beginning to attract voluntary private capital flows.

66. Mexico did not claim, however, that its experience in dealing with debt was the only course to follow. The measures taken by debtor countries must reflect their own needs and characteristics. Only joint action by all the parties concerned could prevent the problem from continuing to hamper the growth of the developing countries. Unless the indebted countries received the help they needed to reduce the transfer of their resources and acquire greater access to markets, there was a risk that conditions in many of them would deteriorate again and that their economic reforms would continue to be ineffective.

67. Unfortunately, the structural adjustment measures implemented by most developing countries had not been supported by new lending or the creation of trade opportunities by the developed countries which would have allowed export earnings to offset the dearth of external financing. Increased international savings and investment flows to developing economies were needed. The developed countries must also devise strategies for maintaining the financial flows needed for development, particularly of debtor countries. Resources previously allocated to unproductive activities must be reallocated for international development and cooperation. At the same time the international financial institutions must be provided with additional financial resources, particularly from developed countries, to support countries seeking to renegotiate their debt. Finally, external debt of the least developed countries called for special treatment, and the measures provided for in the Programme of Action for those countries should be put into effect urgently.

68. More than any previous international experience, the external debt crisis had brought home the full significance of global interdependence. It was the acceptance of joint responsibility by all parties which had made advances possible. Nevertheless, it was obvious that a final solution to the problem would come about only through a real reduction in debt payments and servicing, a mechanism that had yet to be sufficiently utilized, despite its enormous potential.

The meeting rose at 12.40 p.m.